Air Resources Division

NH's NOx BUDGET TRADING PROGRAM

Overview Fact Sheet

RULE Env-A 3200

ACTION...

⊄ NH adopted a rule (Env-A 3200) implementing the Ozone Transport Commission Memorandum of Understanding (OTC MOU), which was signed on September 27, 1994 and called for regional reductions in nitrogen oxides (NOx) emissions beginning in 1999 implemented through a market-based budget (or cap) and trading program.

⊄ Not only is NH's budget program designed to achieve the ozone season NOx reductions required by the OTC MOU, but also it is designed to achieve at least an additional 100 tons of NOx reductions per season for environmental benefit.

WHAT ARE THE ENVIRONMENTAL AND HEALTH BENEFITS?

⊄ By May 1, 1999, the existing affected facilities (utility boilers and combustion turbines at 5 Public Service of New Hampshire (PSNH) facilities) in New Hampshire shall reduce their NOx emissions from their 1990 baseline emissions of 14,589 tons to 4,674 tons.

⊄ These significant NOx emission reductions, combined with similar reductions in other OTR States, should help improve air quality by reducing ground-level ozone concentrations. Exposure to ozone causes decreased lung capacity, particularly in children and elderly.

HOW DOES THE RULE PROVIDE FLEXIBILITY TO INDUSTRY?

⊄ A preliminary analysis conducted for the OTC showed that substantial economic benefits could be achieved by implementing a significant NOx emission reduction with a Acap and trade≅ program as compared to a traditional Acommand and control≅ program. These preliminary findings indicate that in 2005, the cost savings attributable to use of a Acap and trade≅ program are

approximately 30% or $80 million in annualized cost across the region.

HOW DOES THE RULE ASSIST NEW HAMPSHIRE?

⊄ NH will count the NOx Budget Program as one component of its plan to reduce ozone precursor emissions and demonstrate reasonable further progress toward achievement of air quality standards, as required by the Clean Air Act.

WHAT ARE THE MAIN COMPONENTS OF THE RULE?

⊄ An allowance is equal to one ton of NOx emissions.

⊄ Beginning in 1999, the regional budget was allocated as allowances to each state in the region. NH=s statewide 1999 budget was 5,219 allowances. NH allocated 4,674 allowances to the existing individual budget sources. NH retired at least 100 allowances for environmental benefit. NH retained 445 allowances in a multi-purpose set-aside account, some or all of which may be allocated to new sources.

⊄ The sum of the NOx emissions from budget sources should not exceed the number of allowances allocated during the control period months of May through September.

⊄ Budget sources are allowed to buy, sell, or trade allowances to meet their individual needs.

⊄ Budget sources may also Abank≅ allowances on a limited basis. Banking is defined as the carry-over of unused allowances from one control period to the next. Use of banked allowances in future years could potentially result in regional exceedances of the budget. However, provisions are included to control the amount of banked allowances used in any given control period, such that regional exceedances (if any) are expected to be minimal.

⊄ Budget sources are required to monitor and report NOx emissions during each control period. Monitored hourly emissions must be reported to a centralized emissions tracking system administered by the US EPA Acid Rain Division.

⊄ Once the control period has ended, budget sources have a window of opportunity to evaluate their reported emissions and obtain any additional

allowances they may need to balance their emissions during the period.

⊄ Should the budget source not obtain sufficient allowances to offset emissions for the season, enforcement and penalty provisions, including deduction of allowances from the next season=s allocation, would apply.

⊄ Any new budget source will be subject to the cap and shall receive allowances to cover its actual emissions.

⊄ The program will be periodically audited to assure that the program, as implemented, is consistent with applicable reasonable further progress requirements of the Act.

⊄ Beginning in 2003, NH=s statewide budget decreased to 3,739 allowances. NH allocated those allowances during a second phase of rulemaking. A work group was formed to discuss how best to convert to a more environmentally efficient allocation methodology, based on generation output.

⊄ Beginning in 2006, NH's statewide budget decreases to 3,000 allowances. The additional 739 tons of reductions is beyond the requirements of the OTC MOU, and is consistent with the New England Governors' and Eastern Canadian Premiers Acid Rain Action Plan. Energy efficiency projects, renewable energy projects, and non-emitting generation sources may be allocated allowances from the multi-purpose set-aside account in order to provide an economic incentive for developing and maintaining cleaner sources of power generation and energy conservation.

BACKGROUND: MARKET-BASED PROGRAMS

⊄ The Clean Air Act Amendments of 1990 recognize the merit of using market-based approaches to help achieve clean air goals. For example, the Amendments introduced a market-based allowance trading system for controlling sulfur dioxide emissions that contribute to acid rain. Reductions are achieved through an "emissions budget" or "cap" trading system that places a "cap" on emissions for a specific category of sources, power plants. In contrast, an open market system allows, but does not require, any emissions source or facility, including mobile sources, to participate and does not set a limit on the number of emissions credits generated or sold. The 1990 Amendments also

includes a requirement, in certain cases, for economic incentive programs to be used as part of States' plans to meet requirements for ozone and carbon monoxide in areas of the country that fail to meet the national standards set for those pollutants.